Trends in Brazilian Beauty & Personal Care

Presented by: Daniel Bone, Consumer Insight Director
Agenda

Datamonitor Consumer

- Brazil: consumer and market snapshot
- Importance of the beauty aesthetic
- The allure of green and natural beauty
- Intensifying competition and route-to-market
About Datamonitor Consumer
Consumer and innovation experts

**Consumer Insight**
Real insight on real consumers

**Innovation Tracking**
Uncover new trends in products and packaging

**Market Assessment**
Identify new hot spots in the marketplace

**Strategic Leadership**
Understand what shapes tomorrow

Source: Datamonitor Consumer
About Datamonitor Consumer

Consumer research country coverage
Agenda

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Brazil: consumer and market snapshot

Importance of the beauty aesthetic

The allure of green and natural beauty

Intensifying competition and route-to-market
Brazil: consumer and market snapshot

All eyes on the rise of the Brazilian consumer

- Multi-ethnic population of 196 million people
- Most populous country in Latin America
- Fifth most populous country in the world
- 85.5% urbanized
- Fourth largest beauty market, part of $1.3 trillion economy

Source: Datamonitor analysis
Brazil: consumer and market snapshot
Currently a youthful and appearance conscious population

Brazilian Population Pyramid

Source: Datamonitor analysis
Brazil: consumer and market snapshot

Brazil’s middle class growth is the region’s highest: >50% in the middle classes

Family monthly income:

- **A,B**: >BRL4,855
- **C**: BRL1,126 to 4,854
- **D,E**: <BRL1,125

Spending power of the expanding middle class has underpinned the boom of the recent decade – as well a debt accumulation

Source: Datamonitor analysis
Brazil: consumer and market snapshot

Most dynamic beauty market in the region coincides with decade-long boom

Market value (2012) and CAGR (2002-12)

A story of a consistent and sustained expansion: outpace that of developed market

Skincare
- $3.6bn
- 7.1%

Fragrances
- $2.2bn
- 13.7%

Haircare
- $4.6bn
- 9.1%

Make-up
- $3.8bn
- 18.4%

Source: Datamonitor analysis

Natura and Avon are investing heavily here

CAFUNÉ
Brazil: consumer and market snapshot

The economic situation reveals a mixed picture: improvement vs. slowdown

Outlook towards the country’s current economic situation

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP Growth, 2010-13(f)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>7.5%</td>
</tr>
<tr>
<td>2011</td>
<td>2.7%</td>
</tr>
<tr>
<td>2012</td>
<td>0.9%</td>
</tr>
<tr>
<td>2013(f)</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

GDP Growth, 2010-13(f) = Lowest of the BRICS

Source: Pew Global Research, The Economist
Brazil: consumer and market snapshot

Optimistic about their financial situation but wary of inflation

Outlook towards personal economic situation

<table>
<thead>
<tr>
<th></th>
<th>Good</th>
<th>Bad</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>26%</td>
<td>74%</td>
</tr>
<tr>
<td>China</td>
<td>33%</td>
<td>67%</td>
</tr>
<tr>
<td>Japan</td>
<td>58%</td>
<td>38%</td>
</tr>
<tr>
<td>South Korea</td>
<td>57%</td>
<td>40%</td>
</tr>
</tbody>
</table>

Rising prices are a ‘very big’ problem

Inflation is around 6% - mixed with rising debt

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>83%</td>
</tr>
<tr>
<td>China</td>
<td>59%</td>
</tr>
<tr>
<td>Japan</td>
<td>36%</td>
</tr>
<tr>
<td>South Korea</td>
<td>56%</td>
</tr>
</tbody>
</table>

Cost-of-living in Brazil close to the US

Source: Pew Global Research, 2013
Brazil: consumer and market snapshot

Fury over rising inflation, high taxes, poor public services and political corruption

Catalyst was a rise in bus fares

A more demanding and individualistic middle class consumer base with higher expectations

An expressive consumer is good for beauty!

Source: globalresearch.ca
Brazil: consumer and market snapshot

Brazil is still one of the world’s most unequal countries despite improvements

- In 10 years, the poorest 10% nearly doubled their incomes in real terms

- Brazil’s Gini coefficient (income inequality measure), is at a 50-year low

Gap between rich and poor a VERY BIG problem

75%  52%  34%  56%
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Brazil: consumer and market snapshot

Importance of the beauty aesthetic

The allure of green and natural beauty

Intensifying competition and route-to-market
Importance of the beauty aesthetic
A regional trend, but Brazilians are the most style conscious consumers globally

Try to look stylish at ALL times…

A natural flamboyance: 87% of Brazilians want to look stylish at all times

Fashion weeks in São Paulo and Rio de Janeiro now rank among the world’s premier fashion events

Source: Neilsen, 2007
Importance of the beauty aesthetic
Reflected in general attitudes towards personal aesthetics

Deemed as ‘important’ or ‘very important’…

Looking your best in day-to-day life
- 91%
- 78%

Being complimented by others about your appearance
- 69%
- 46%
- Value social recognition

Adopting the latest cosmetic looks/styles
- 39%
- 26%
- Fashion forward colors

Source: Datamonitor Consumer Survey, 2013
Importance of the beauty aesthetic
And the derived enjoyment/pleasure from a health & beauty regimen

Deemed as ‘enjoyable’ or ‘very enjoyable’…

Spending time on your personal appearance

- Brazil: 78% (+23)
- Global: 55%

Shopping for beauty products for yourself

- Brazil: 72% (+19)
- Global: 53%

Spending time on a health & beauty regime

- Brazil: 58% (+11)
- Global: 47%

Source: Datamonitor Consumer Survey, 2013
Importance of the beauty aesthetic
Beauty products are lifestyle supporting purchases: opportunity and confidence

Agreeing that…

Physically attractive people have greater opportunities in life

- 66%
- 64%

Rely on beauty products to feel more confident and/or beautiful

- 56%
- 44%

Source: Datamonitor Consumer Survey, 2013
Importance of the beauty aesthetic

Brazilians are highly attentive to skincare, haircare, and smelling good

Deemed as ‘very important’ – i.e. your engaged, involved consumers...

Taking care of your skin
- Taking care of your hair
- Using fragrances to smell nice

<table>
<thead>
<tr>
<th>Activity</th>
<th>Brazil</th>
<th>Global</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taking care of your skin</td>
<td>41%</td>
<td>32%</td>
<td>+9</td>
</tr>
<tr>
<td>Taking care of your hair</td>
<td>43%</td>
<td>31%</td>
<td>+11</td>
</tr>
<tr>
<td>Using fragrances to smell nice</td>
<td>40%</td>
<td>24%</td>
<td>+16</td>
</tr>
</tbody>
</table>

Source: Datamonitor Consumer Survey, 2011
Importance of the beauty aesthetic

Appearance consciousness does not equate to an easy sell

General performance claims made

Trustworthy / Neither / Untrustworthy

45% / 33% / 19%

"Natural" claims made by beauty brands

Trustworthy / Neither / Untrustworthy

50% / 35% / 15%

Source: Datamonitor Consumer Survey 2013
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The allure of green and natural beauty

Brazilians are particularly sensitive towards ethical and environmental aspects

Influence of green and sustainable production methods on the choice of beauty products...

Source: Datamonitor Consumer Survey, 2013
The allure of green and natural beauty
Natural ingredients: the leading sustainability issue for Brazilians

Top 5 most important attributes in what represents a green or sustainable product (among 15 factors)

- Made with natural ingredients
- Less pollution generated in production/use
- It is made with organic ingredients
- Packaging can be recycled or reused
- Zero or minimal waste

Locally produced towards the bottom: Brazilians are open-minded to international products/brands

Source: Datamonitor Consumer Survey, 2013
The allure of green and natural beauty
Natura Sou launches with the tagline: 'Why do you need what you do not need?'

80% plant-based, dye-free formula (a company always focused on natural ingredients)
New shape that makes it easier to extract all the product and avoid waste
Pouch format means 70% less plastic than similar products
CO2 emission during production has also been cut by 60%. Overall costs by 50%
Strong color blocking provides good shelf presence (if it were a retail product)
The allure of green and natural beauty
Natura Plant reinforcing the connection to nature

- 32 hair treatment products
- Reformulated Plant in 2013 with new packaging inspired by nature
- Ads focus on women's intimate relationship with their hair as a part of their female identity
- Strong focus on preserving market share
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Brazil: consumer and market snapshot

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The allure of green and natural beauty

Intensifying competition and route-to-market
Intensifying competition and route-to-market

 Brazilians are not completely predisposed to the direct-selling channel

Method that is most appealing when purchasing beauty products...

Since 1974 Natura’s products have been distributed by self-employed sales people. Business model remains direct sales through advisors and consultants.

A format that Brazilian women are TWICE AS LIKELY to prefer than men (20% vs. 9%). But surely a problem when revenue depends exclusively upon direct sales.
Intensifying competition and route-to-market

Exposure to direct selling creates heightened sampling expectations

STRONGLY AGREE an enjoyable sampling experience will encourage me to purchase the product

Brazilian consumers open to new brands and testing new product

Source: Datamonitor Consumer Survey, 2013
Intensifying competition and route-to-market

Major international brands are bringing a contemporary approach

- Sephora moved into Brazil with its own stores in mid-2012. Expected to have 10 stores by end of this year

- Results have exceeded expectations: the most successful store opening in the company's history

- Shiseido targets consumers who are actively upgrading from the mass to entry-prestige segment

- Expect to capitalize natural and organic trend in anticipate double-digit growth or higher over next 5 years

Source: Datamonitor analysis
Intensifying competition and route-to-market

Acquisition-led entry is commonplace

October 2013: L’Oréal announces the acquisition by The Body Shop of 51% of Emporio Body Store

Access to a pre-existing franchise retail network, and the appreciation of naturally inspired, sensorial products

February 2013: US-based drugstore chain CVS acquired Brazilian drugstore Drograria Onofre

Plans to expand Onofre's footprint, opening 20 new stores by the end of 2013

Source: Datamonitor analysis
Intensifying competition and route-to-market
Equates to an increasingly competitive market, especially for direct sellers

Invest 60% more in marketing in 2013 than 2012

AVON

“The competitive environment in Brazil has intensified over the past several months with key competitors increasing advertising, as well as the depth and frequency of their discounting”

Natura posted reduction of 17.7% in profits in Q2

“[Q2] revenue growth in Brazil fell short of our expectations…. I think that as an overall, the Brazilian market is being more competitive, and we need to be better and do more innovation to guarantee the competitiveness”

Source: Datamonitor analysis
Intensifying competition and route-to-market
Local players are adapting and modernizing

- Opened Espaco Conceito (Concept Space) in Sao Paulo to better connect with consumers
- The same place where it started as a small shop in the 70’s

Initially a three months initiative, but extended because it worked so well

10% of visitors are international, a sign of things to come…
Intensifying competition and route-to-market

Brazil on the international stage: it will enhance infrastructure development

FIFA WORLD CUP
Brasil

Government Growth Acceleration Program

Johnson & Johnson is a sponsorship partner for the FIFA World Cup

Bottle shaping and closure design create a pack that somewhat resembles the tournament logo

Source: Datamonitor analysis; Pack-Track
Intensifying competition and route-to-market

Next year promises to be a significant year for the country and the industry.

So much so that you should be connecting with the developments at a local level.
Summary

Brazilians’ attachment to beauty will drive future opportunity

Internationalized and increasingly mature: major beauty companies are specifically creating platforms for growth in Brazil

Not without its external headwinds & challenges: poor infrastructure, and growing concerns about a softening economy

Emotional attachment to beauty ensures beauty remains a major growth opportunity

Source: Datamonitor analysis
Thank You!

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